Hugh Russel Limited

Annual Report 1974

Index

Highlights

	1974	1973	Per Cent Change
Net Sales	**$262,800,000**	$130,391,000	+102
Net Earnings	**$15,663,000**	$6,068,000	+158
Earnings per Share Fully diluted	**$6.05**	$2.35	+157
Cash Flow per Share Fully diluted	**$6.53**	$2.70	+142
Capital Employed at Year End	**$52,513,000**	$35,698,000	+ 47
Earnings to Average Capital Employed	**36 per cent**	18 per cent	+100
Capital Expenditures	**$3,539,000**	$1,094,000	+223
Five-year Compounded Rate of Growth in Earnings per Share	**67 per cent**	44 per cent	+ 52
Total Employees	**1,717**	1,411	
Total Common Shareholders	**2,209**	1,975	
Shares Held by Canadian Residents	**99 per cent**	99 per cent	
Total Dividends Paid	**$1,036,000**	$794,000	+ 30

The new Ceeco Machinery Inc. plant in Erie, Pennsylvania.

Letter to Shareholders

From many standpoints, 1974 was an exceptional year in the company's continued development. A major milestone was passed with the achievement of $263 million in total sales. Perhaps more significant, record earnings during the year have materially strengthened the financial resources available to the company's growth programs.

In reading this review of 1974 operations, shareholders may find it interesting to compare current results with those of prior years, bearing in mind that 1966 marked the start of formal planning to expand the company's industrial distribution and related activities. In less than ten years, the company's growth policies and planning have brought Hugh Russel Limited from essentially a regionally based steel distribution operation to its present position as Canada's largest and most diversified organization specializing in industrial distribution.

The nature of the company's main activities, together with methods of identifying and capitalizing on new profit opportunities, enables development planning to be conducted with some degree of certainty. Shareholders will recall that in 1969 the company anticipated reaching $250 million in sales by 1975. With that milestone reached a year ahead of plan it is now realistic to expect that the company will have sales (and commensurate profits) in excess of $500 million by 1980.

Hugh Russel Limited has been described as one of the fastest growing companies in Canada. In order to maintain this reputation, the company must be able to attract capital and skilled personnel. To date, through retained earnings, supplemented by access to the public market for new capital, adequate financing has been found. The talents and efforts of company management and employees in Canada and other countries, including many who have joined the organization by way of the acquisition program, have been responsible for the company's profitable growth. Without in any way making light of the magnitude of the financial and human resources required to double the size of the business within the next five years, experience does provide a growing confidence that these challenges can be successfully met.

The remarkable earnings achieved during 1974 were derived, broadly, in three ways:

J. P. Foster and A. D. Russel.

(a) The normal and planned growth in earnings from operations — both existing and acquired;

(b) Additional earnings gained as the result of abnormal and potentially non-recurring supply and demand conditions in world steel markets; and

(c) Inventory profits, caused by inflation, which are not available to the company for new investment or dividends because of the need to replace inventory items at increased cost.

These elements are discussed in detail in relevant sections of this report.

From the shareholder's point of view, probably the most significant message to be obtained from this report is that after recognizing earnings which have resulted in 1974 from both abnormal market conditions and inventory profits, a substantial increase has occurred in the earnings capability and financial strength of the company compared to the previous year.

A. D. Russel,
Chairman and
Chief Executive Officer.

J. P. Foster,
President.

Toronto,
March 13, 1975.

Performance Review

Chart 1

Consolidated Sales

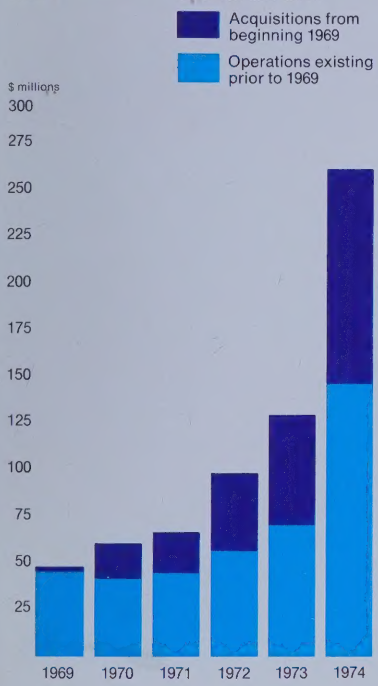
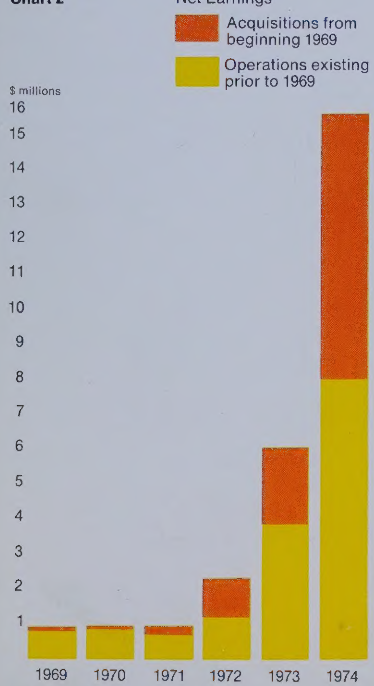


Chart 2

Net Earnings



Strong performance was recorded in all operating areas throughout the year, due to a combination of increased buying and sales efforts, and greater market coverage achieved through internal expansion and acquisitions.

Sales

On a consolidated basis, net sales of $263 million were more than double the $130 million reported for 1973. A key factor in this sales growth was the ability of the operating groups to secure adequate inventories to meet customer demand under extremely difficult and tight supply conditions. An important contribution was also made by new businesses acquired during the year, which accounted for approximately nine per cent of 1974 sales.

Chart 1 illustrates the contribution to sales growth made by the company's expansion and acquisition programs since the beginning of 1969. Sales by components of the company existing prior to 1969 have increased from $46 million in 1969 to $148 million in 1974, a growth of more than 220 per cent through internal expansion, or an annual compound rate of growth of 26 per cent. Companies purchased during this six-year period added $115 million to 1974 sales, almost half of the total.

Earnings

Net earnings for the year amounted to $15.7 million compared to $6.1 million for 1973. On a fully diluted basis, earnings per common share were $6.05 compared to $2.35 per share for 1973.

Earnings results for 1974 represent a sharp increase from the underlying profit trends established by the company in recent years. It is a characteristic of the large distribution firm that opportunities for above average profit performance exist in periods of heavy demand and tight supply due to a broad knowledge of international supply markets developed over years, and an ability to respond quickly to opportunities for increased sales.

As noted in the Interim Report to Shareholders for the third quarter of 1974, some apparent over-statement of earnings occurs in conventional financial statements in periods of rapidly increasing prices. This results from the fact that a portion of the profit on a particular transaction must be turned back into the business to replace the item sold at a higher cost. On the basis of the accounting system used by the company for steel inventory management and pricing decisions, it is estimated that inventory profits amounted to approximately 18 per cent of before tax earnings and profit results should be reviewed with this factor in mind (see page 6).

Results by Quarter

	Sales ($000's)			
Quarter	**1974**	1973	1972	1971
1	**54,235**	25,584	19,077	14,164
2	**66,723**	33,817	25,050	18,166
3	**67,748**	34,406	27,187	17,414
4	**74,094**	36,584	27,792	17,606
Total	**262,800**	130,391	99,106	67,350
	Earnings per Common Share			
1	**1.61**	0.27	0.16	0.01
2	**1.97**	0.58	0.28	0.13
3	**1.57**	0.67	0.34	0.16
4	**0.90**	0.83	0.39	0.19
Total	**6.05**	2.35	1.17	0.49

The pattern of earnings over the past six years is shown in Chart 2, which illustrates the impact of acquired growth separately from internal growth. Some 13 per cent of 1974 earnings resulted from companies acquired during the year, while more than 48 per cent of earnings in 1974 came from companies purchased within the last six years. During this same period, earnings contributed by those elements of the organization in place prior to 1969 have grown from $800,000 in 1969 to more than $8 million in 1974, providing a graphic illustration of the progress achieved through internal expansion.

Assets

An indication of the company's increasing financial resources may be gained from Chart 3, which shows growth in assets over the last six years. At year end, total assets stood at $115.5 million, an increase of 80 per cent over assets at the end of 1973 and an increase of $93.8 million since the beginning of 1969.

Chart 3

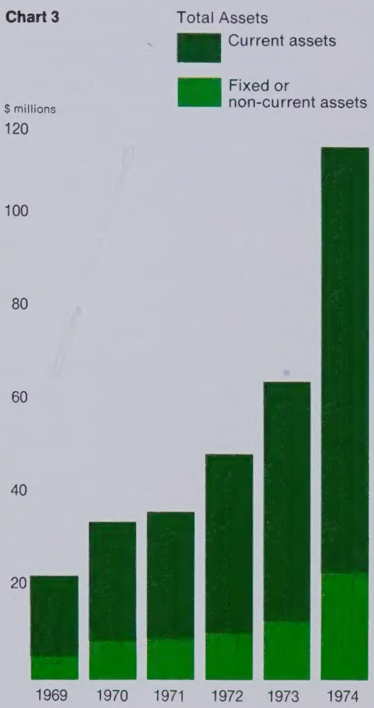
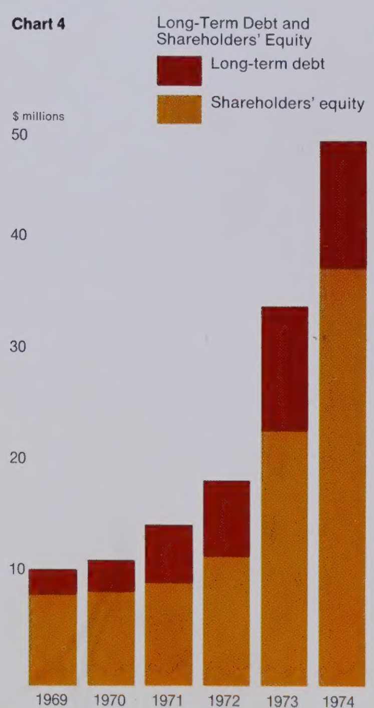


Chart 4



Nature of the Business

The heavy concentration in current assets has particular significance in terms of the company's ability to respond quickly to changing market or economic conditions. Results for 1974 demonstrate the potential available in expanding markets. In the event of a slowdown in markets, the investment in inventories and accounts receivable is reduced, cash flows back into the bank, which lowers interest costs on borrowed money and provides cash resources for new, profitable investment.

Financial Position

The company continues to be in a sound and liquid financial position as shown in Charts 4-6. Cash flow reached $17 million in 1974, compared to $7 million in 1973, with working capital at year end of $29 million compared to $22 million at the end of 1973. The ratio of shareholders' equity to long-term debt at year end was 3.2:1 which, together with other financing sources available to the company, provides a strong financial base on which to build.

Operating Group Highlights

Hugh Russel Limited operates through four distinct groups of wholly-owned companies, each with its own specialized activity. The operating groups, each under the direction of a senior operating executive with long experience in the specific field, are responsible for conducting growth programs in their particular market areas. Co-ordination of overall financial management and planning is provided by the parent company.

During 1974, three new businesses were acquired: Boone Plumbing Supply Company Limited, an industrial distributor of plumbing and heating supplies based in Ottawa/Hull; Halliday Craftsmen, a chain of five retail home centres and a component home plant, in the Atlantic Provinces; and St. Laurent Steel Ltd., a Montreal-based specialty steel service centre. In addition, Ceeco established a new manufacturing plant in the United States under the name of Ceeco Machinery Inc., and acquired a 49 per cent interest in a Mexican machinery manufacturing company, Disenos Y Construcciones de Maquinaria, S.A. (Dicomasa). The Sumner Group undertook a joint venture in the manufacture of sectional homes in Nova Scotia through a 50 per cent interest in Springhill Homes & Supplies Limited.

	Sales ($000)		Operating Profits (Per Cent)	
Company Group:	**1974**	1973	1974	1973
Russelsteel	**200,446**	96,468	90.6	82.8
Ceeco	**13,612**	3,914	0.7	2.9
Sumner	**36,307**	20,383	6.1	10.2
Canadian Bearings	**12,435**	9,626	2.6	4.1
TOTAL	**262,800**	130,391	100.0	100.0

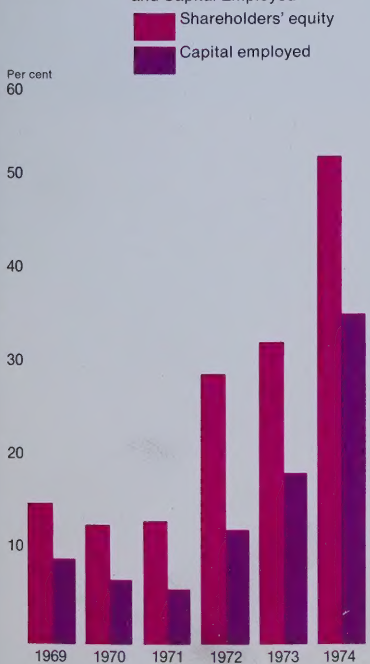
Metals Distribution

The Russelsteel Group operates Canada's largest national steel service centre organization, with steel inventories and metal processing plants in most major centres across Canada. Russelsteel is a supplier of a wide range of steel products for use in construction, manufacturing and processing industries. The Group co-ordinates the movement of hundreds of thousands of tons of steel each year and is a major source of steel used by industry for maintenance purposes.

Russelsteel achieved record sales in 1974 despite severe shortages of steel on a world-wide basis. The Group was able to considerably increase the tonnage of steel sold, due partly to forward buying in anticipation of developing shortages and the ability of Russelsteel buyers to obtain supplies on

Chart 5 Cash Flow

Chart 6 Return on Shareholders' Equity and Capital Employed



world markets to supplement the increased supply of steel available from Canadian producers.

The record level of activity produced exceptional earnings gains by Russelsteel. It is realistic to expect that earnings will return to a more normal level as supply and demand come into better balance and world steel prices stabilize.

Home Products Distribution

The Sumner Group distributes plumbing, heating and electrical supplies, building materials and builders' hardware to the residential and commercial construction industry. The Group also operates a chain of nine retail home centres to service the "do it yourself" handyman, as well as carrying a range of housewares and appliances. Sumner also manufactures complete homes, either built in components for assembly on site (component homes); or factory-built homes ready for occupancy when placed on permanent foundations (sectional homes).

Sumner's sales and earnings results for 1974 reflect the greater market coverage achieved through internal expansion and acquisitions made during the year. Record sales and the effect of spreading fixed costs over larger sales volumes contributed to increased earnings.

Bearings Distribution

The Canadian Bearings Group is Canada's largest bearing specialist, distributing industrial bearings and mechanical power transmission parts. Products handled by Canadian Bearings are used in all kinds of machinery installed in manufacturing and processing plants.

Canadian Bearings recorded an increase in sales of approximately 29 per cent over 1973. The results were achieved through a combination of expansion into new markets, the availability of inventory of high demand items and a strong sales effort across the Canadian Bearings system. As with other operating groups, Canadian Bearings' profits were particularly strong, with some assistance from realized inventory profits.

Engineering Sales

The Ceeco Group is now one of the world's major suppliers of machinery used in the manufacture of wire and cable, with its principal customers in the telecommunications and electrical power transmission industries. Ceeco designs and produces a range of stranding, twisting, drawing and annealing equipment. In addition, Ceeco undertakes projects involving the design layout and equipping of complete wire and cable manufacturing plants.

Ceeco achieved record sales in 1974 as the result of expanded operations in the United States and Mexico, and greater market penetration in Canadian and world markets. To enable the Ceeco Group to service its growing markets, a number of one-time costs were incurred during the year which held 1974 profits below those of 1973. The positive results of the work completed in 1974 will begin to become evident during 1975. These expenditures included start up expenses associated with the establishment of a new Ceeco Machinery Inc. plant in Pennsylvania, and expenses incurred in consolidating and re-organizing the operations of Syncro Machine Company in New Jersey. Earnings from Canadian operations showed solid growth.

Review of Organizational Activities

Personnel

Skilled management is the company's most precious asset. Hugh Russel Limited has a policy of developing managers from within. However, we have been fortunate in the number of senior executives who have joined the company through the acquisition program. The company now has a substantial and growing pool of first, second and third echelon managers to draw upon for ongoing development.

Operating Group Re-organization

Growth creates new conditions which demand constant monitoring and modification of management structures to suit changing times and conditions.

In Russelsteel, administrative functions have been consolidated in the Montreal Executive Offices of the Group, while operational management has been decentralized to regional offices in Calgary, Winnipeg, Toronto and Montreal.

The management structure of the Sumner Group is being centralized in a Moncton Head Office providing overall co-ordination of the Group's operations. At the same time, operational management is being decentralized along functional lines with managers responsible for wholesale, retail and manufacturing activities.

Canadian Bearings Group has organized its senior management to provide direct executive responsibility for functional aspects of the Group's operations, particularly in the areas of inventory management and sales.

The addition of Syncro Machine Company, located in Perth Amboy, New Jersey, has more than doubled sales of the Ceeco Group. This important manufacturing activity is under the direction of an internationally known executive with many years of operating and engineering experience in the wire and cable industry.

Inflation Accounting

Inflation presents particular management problems due to the need to replace inventories with items of constantly rising costs. Merely to stay in business, selling price policies must be established according to the replacement costs of items sold, rather than historic, actual costs. Accounting must be modified from the traditional concepts of historic costs so that the true profit on a particular transaction can be determined, taking into consideration that a new item with a higher cost must be bought to replace the item sold.

Unfortunately, conventional accounting practices are not adequate for this purpose because they assume a dollar of constant value, while the need of management is for information on the real world of rising prices and a dollar of diminishing value.

During 1974, the company initiated studies on the impact of inflation on financial reporting, with the aim of producing a practical accounting system based on current value or replacement costs. Because of the particularly volatile price conditions existing in world steel markets throughout 1974, the study was concentrated in the steel distribution area. A team made up of the company's auditors, outside consultants and senior company officials worked on this project over a period of several months.

The results of the completed work confirmed that the information used as a basis for buying and marketing decisions is sound. To switch from the historic method of accounting to a system of current value accounting for public reporting, however, is fraught with complications. Our decision to move ahead with this project must now wait definitive statements on the subject by the Canadian accounting profession, regulatory and tax authorities, and industry in general.

A Review of Expansion and Acquisition Activities

The company's growth objective is to double in size every four to five years. A second but no less important objective is to diversify within the framework of industrial distribution and related activities, both in terms of geographic markets and products.

Both objectives have been consistently surpassed in the past ten years. Sales have grown from $23 million in 1965 to $263 million in 1974. The steel product range has been expanded; mechanical power transmission components, building, plumbing, heating and electrical supplies, have been added; as well as a capability to supply wire and cable-making machinery to the worldwide telecommunications and electrical power transmission industries.

The St. Laurent Steel Ltd. plant in Montreal.

The central principle underlying the company's growth program is a search for expansion through a "make or buy" process. This entails research of particular market or product areas to determine the operational opportunities available to the organization. An evaluation is then made as to the most effective way of entering that market, either by establishing a new company facility or through the acquisition of an existing company already active in the market.

The present organization has been built on the basis of both "make" and "buy" decisions, each expansion undertaken to meet an operational requirement or opportunity.

The following summary of expansion activities in recent years illustrates the Hugh Russel Limited growth process.

Russelsteel Group

Russelsteel, and its predecessor companies, has been a major distributor of steel products in central Canada since the mid-1800's. In 1970, with a sound base of distribution and processing plants serving most major markets, the company purchased Hector Steel Industries Limited and Hercules Steel Limited, steel distribution companies active in British Columbia, Alberta and Saskatchewan. The purchase provided Russelsteel with a new market presence in Edmonton, Calgary and Vancouver, expanding its steel operations nationally.

In 1973, Vincent Steel & Service Limited of Toronto was purchased to strengthen the company's ability to serve Ontario markets with specialty flat rolled steel products. A similar expansion took place in January 1974 with the purchase of St. Laurent Steel Ltd. of Montreal, also specializing in the processing and distribution of flat rolled steel products for Quebec and Eastern Ontario markets.

In addition to growth by way of acquisition, Russelsteel has expanded its plant capacity, with emphasis on processing and service capabilities. In 1972, Russelsteel's Toronto plant was expanded to provide 170,000 square feet of inventory and processing space. A new plant was completed at Saskatoon in 1972. One of the most modern steel service centres in Western Canada was officially opened in Edmonton during 1974 to expand the Group's service capability in an area of rapid industrial development. All Russelsteel plants are equipped with modern pre-processing equipment to serve the needs of their customers.

Sumner Group

The Sumner Group offers a graphic illustration of the opportunities inherent in the growth process followed by Hugh Russel Limited. Sumner was an old, established building supply company centred primarily

in New Brunswick, with annual sales of $8 million when it joined Hugh Russel Limited in January 1972. In the intervening three years, the company has expanded its original seven outlets into a chain of 29 wholesale and retail centres serving the Atlantic Provinces with sales of $36 million for 1974. In the process, Sumner has developed a capability to serve a broader segment of its markets through the addition of new products and services, and the buying efficiencies resulting from larger scale operations.

The first phase of Sumner's expansion program began in July 1972, with the purchase of T. P. Calkin Limited, a distributor of building supplies and related products. This move provided Sumner with improved access to major Nova Scotia markets.

In January 1974, Sumner purchased the business of Halliday Craftsmen Limited, which extended the Group's operations at the retail level by providing a chain of home centres carrying product lines distributed by Sumner. Halliday also manufactures homes built as pre-assembled components, complete from roof trusses to wall coverings.

Also in 1974, Sumner entered into a joint venture with Home Care Properties Limited of Truro, Nova Scotia, to manufacture sectional homes — that is, homes completely built in the factory ready for occupation — through a new company, Springhill Homes & Supplies Limited. The sectional and component homes operations utilize Sumner Group products and provide a broadened service to the residential construction industry.

Early in 1974, Sumner purchased Boone Plumbing Supply Company Limited, a distributor of heating and plumbing supplies serving markets in Eastern Ontario, providing Sumner with its first operations outside of the Atlantic Provinces.

Halliday's product lines extend the retail market operations of the Sumner Group.

Canadian Bearings Group

At the time of purchase by Hugh Russel Limited in 1969, Canadian Bearings operated four centres in Southern Ontario supplying industrial bearings and mechanical power transmission components to industry. Expansion to this point has been generated internally. The Group has steadily increased its market coverage with new and enlarged facilities, a major expansion occurring in 1973 and early 1974 with the opening of new centres in Barrie, Kingston and Montreal.

Canadian Bearings Group now operates 12 centres, several of which are in the process of being enlarged. Consideration is being given to opening additional centres during 1975.

Ceeco Group

Ceeco was founded in 1965 by the current Group management and joined Hugh Russel Limited in 1968 with annual sales of some $300,000. From this relatively small base, Ceeco has grown to become an international designer and supplier of equipment used in the manufacture of wire and cable. Steady development of markets for Ceeco products set the stage for a major expansion in Canadian and international markets over the last two years.

In 1973, Ceeco's manufacturing facilities in Canada were enlarged to accommodate increased domestic demand. A production capability was established in mid-year in Sao Paulo, Brazil, through a wholly-owned subsidiary, Ceeco do Brasil Maquinas Ltda., to serve growing markets in South America.

Also in 1973, Syncro Machine Company of Perth Amboy, New Jersey, was purchased to broaden Ceeco's product line and improve access to U.S. markets.

Above: Processing facilities at the new Russelsteel plant in Edmonton.
Left: Operations in the new Ceeco Erie plant.

Ceeco continued its growth during 1974. Early in the year it acquired a 49 per cent interest in Disenos Y Construcciones de Maquinaria, S.A. (Dicomasa), a machinery manufacturer in Mexico City. The affiliated company will serve customers in Central and South America as well as Mexico. Subse-

Canadian Bearings opened several new distribution centres during 1974.

quently, Ceeco Machinery Inc. was formed with a modern production plant in Erie, Pennsylvania, to further strengthen the Group's position in U.S. markets.

With its present design and production capacity, the Ceeco Group is strongly positioned to play an important and growing role in serving the equipment needs of Canadian and international telecommunications and electrical energy transmission industries.

Summary

When the process started in the mid-1960's, a single management group was created to devise and execute a plan of growth by acquisition in areas which would augment and complement natural internal growth. With the success of this plan and the emergence of four clearly defined operating organizations, there are now five management groups devoting their time to the further extension of this basic plan.

At any point in time, several possible company purchases are under active consideration, an increasing number of which originate with potential sellers who independently see the economic benefits of associating themselves and their organization with a larger operation. By virtue of the progress achieved in the relatively short space of time the current program has been in effect, and the almost unlimited scope for further growth inherent in industrial distribution, the company looks with confidence to achieving its goals.

Shareholder Policies

Chart 7 Common Dividends

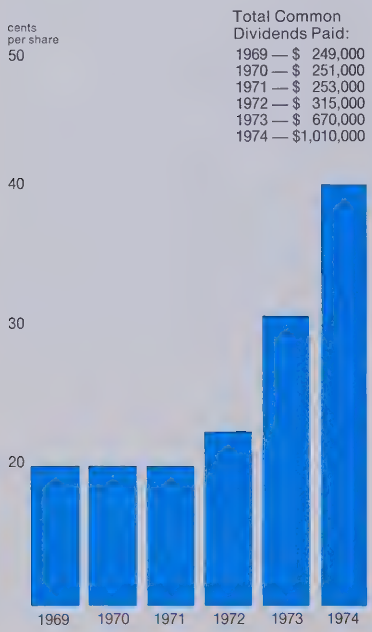


Chart 8 Relative Performance: Hugh Russel Common –T.S.E. Industrial Index

No matter what the economic role of a business organization or its operational achievements, in the final analysis its success can only be measured in terms of the return earned for the shareholder on his investment. Recognizing this fact, corporate policy making is based firmly on the objective of providing shareholders with an above-average return through investments in growth situations within fields of management competence. Because of the size and the scope of the industrial distribution industry, and the potential for growth available to the company as the leading organization in that industry, Hugh Russel Limited policies have been able to meet this objective over a reasonable investment period, and under varying economic circumstances.

In the period since the beginning of 1969, shareholders' equity in the company has increased from $4.6 million to more than $37 million. Over the same period, the value of Hugh Russel shares in the marketplace has increased shareholder values more than three-fold, a compound annual rate of return in excess of 23 per cent. This is illustrated in Chart 8, which compares the year-end market value of Hugh Russel Limited shares to the index of industrial stocks traded on The Toronto Stock Exchange.

While the effect of non-company factors on the performance of the stock market cannot, of course, be predicted, the company remains confident that it can continue to produce an above-average return for its shareholders by the same means that it has followed in the past.

From both the shareholders' and the company's standpoint, the most effective and economic means of financing growth is by reinvesting earnings in growth situations. As the company's record in recent years demonstrates, the compounding effect of reinvested earnings can produce dramatic capital growth. At this time, the opportunities for investment in the company's areas of interest have never been greater.

While investment opportunities could easily absorb all retained earnings, Hugh Russel Limited believes that it is important to balance this with an understandable and clearly stated dividend policy, namely, to pay a regular dividend which increases with the long-term growth prospects of the company. By tying dividends to long-term growth trends, rather than the earnings of a particular year, the shareholder is provided with a degree of certainty about his dividend income, both current and potential.

As shown in Chart 7, this policy has been consistently applied in recent years. In line with progress in the company's basic earnings trend, dividends have been increased from 20 cents per share in 1969, to a current annual rate of 46 cents per share — an average rate of increase of 18 per cent per year over the five-year span. The total dollars allocated to dividends has grown from $365,000 in 1969 to over $1 million in 1974.

Shareholder Communications

To keep management informed on shareholder views, the company has conducted an investor survey in each of the last three years. Response to these surveys has helped management to understand shareholder interests and investment expectations, and to provide a basis for developing more meaningful data for shareholders.

During the year, a Shareholder Bureau was established to answer shareholders' enquiries and to ensure that proper communications are maintained with investors. A new brochure and film strip presentation were also produced, explaining corporate operations and background. The film strip presentation has been made available to investment dealers on a request basis, and is available through dealers to interested shareholders and investors.

Consolidated Financial Information

Ten Year Summary

For Canadian capital gains tax purposes, the Valuation Day value of Hugh Russel Limited shares on December 22, 1971, as established by the Department of National Revenue, was $4.50.

Operating Results (thousands)	**1974**	**1973**
Net Sales	**$262,800**	$130,391
Earnings before deducting depreciation, interest on long-term debt, minority interest and income taxes	**$ 34,198**	$ 13,887
Depreciation	**$ 1,228**	$ 864
Interest on long-term debt	**$ 1,026**	$ 986
Income taxes	**$ 16,281**	$ 5,969
Minority interest	**—**	—
Net earnings(1)	**$ 15,663**	$ 6,068
Operating Statistics(1)		
% Net earnings to net sales	**6.0%**	4.7%
% Net earnings to average common shareholders' equity	**52.5%**	32.6%
% Net earnings to average capital employed	**35.5%**	18.3%
Per Share of Common Stock(1)		
(Adjusted to reflect stock splits)		
Based on average common shares outstanding (thousands)	**2,502**	2,108
Net earnings (after preferred dividends)	**$ 6.25**	$ 2.82
Cash flow	**$ 6.76**	$ 3.24
Book value	**$ 14.79**	$ 9.29
Market price — High	**$ 21.00**	$ 15.50
Market price — Low	**$ 11.88**	$ 10.00
Net earnings — Fully diluted	**$ 6.05**	$ 2.35
Other Statistics		
Current assets/current liabilities (ratio)	**1.5:1**	1.8:1
Shareholders' equity/long-term debt (ratio)	**3.2:1**	2.0:1
Additions to facilities (thousands)	**$ 3,539**	$ 1,094
Total dividends paid (thousands)	**$ 1,036**	$ 794
Number of common shareholders	**2,209**	1,975
Number of shares traded (thousands)	**976**	1,024
Balance Sheet Data (thousands)		
Current assets	**$ 29,039**	$ 50,096
Current liabilities	**$ 62,958**	$ 28,545
Working capital	**$ 91,997**	$ 21,551
Net fixed assets	**$ 12,774**	$ 9,869
Long-term debt	**$ 11,665**	$ 11,170
Shareholders' equity	**$ 37,790**	$ 23,027
Capital employed	**$ 52,513**	$ 35,698
Total assets	**$115,471**	$ 64,243

(1) In 1972 based on earnings before extraordinary items

1972	1971	1970	1969	1968	1967	1966	1965
$ 99,106	$ 67,350	$ 61,113	$ 49,819	$ 38,375	$ 32,473	$ 24,157	$ 22,975
$ 5,838	$ 2,967	$ 2,670	$ 2,413	$ 1,435	$ 1,210	$ 1,354	$ 1,309
$ 738	$ 604	$ 513	$ 310	$ 287	$ 245	$ 205	$ 155
$ 526	$ 359	$ 179	$ 148	$ 150	$ 153	$ 156	$ 50
$ 2,182	$ 1,006	$ 1,052	$ 1,072	$ 516	$ 371	$ 488	$ 577
—	$ 34	$ 42	$ 40	$ 40	$ 6	—	—
$ 2,392	$ 964	$ 884	$ 843	$ 442	$ 435	$ 505	$ 527
2.4%	1.4%	1.4%	1.7%	1.1%	1.3%	2.1%	2.3%
29.0%	13.2%	12.9%	15.1%	9.6%	10.0%	12.5%	13.7%
12.2%	5.9%	6.9%	9.1%	5.9%	6.1%	7.7%	9.6%
1,326	1,266	1,254	1,254	1,244	1,232	1,178	1,168
$ 1.66	$ 0.59	$ 0.54	$ 0.58	$ 0.36	$ 0.36	$ 0.43	$ 0.45
$ 2.36	$ 1.13	$ 0.98	$ 0.77	$ 0.54	$ 0.64	$ 0.63	$ 0.61
$ 6.24	$ 4.70	$ 4.31	$ 3.98	$ 3.73	$ 3.68	$ 3.55	$ 3.33
$ 13.00	$ 4.94	$ 5.56	$ 5.50	$ 4.44	$ 4.06	$ 5.00	$ 6.25
$ 3.88	$ 3.25	$ 3.75	$ 3.94	$ 3.00	$ 3.13	$ 3.19	$ 4.69
$ 1.17	$ 0.49	$ 0.46	$ 0.53	$ 0.36	$ 0.36	$ 0.43	$ 0.45
1.5:1	1.5:1	1.3:1	1.5:1	1.3:1	1.4:1	1.4:1	1.5:1
1.8:1	1.8:1	3.4:1	3.6:1	1.9:1	1.9:1	1.7:1	1.6:1
$ 1,177	$ 825	$ 1,230	$ 437	$ 272	$ 392	$ 475	$ 1,153
$ 505	$ 468	$ 465	$ 365	$ 246	$ 243	$ 235	$ 219
1,204	837	798	760	611	643	667	691
1,083	184	354	392	250	101	60	74
$ 39,480	$ 27,524	$ 25,728	$ 17,659	$ 17,816	$ 14,091	$ 11,701	$ 10,025
$ 28,293	$ 18,339	$ 19,271	$ 11,523	$ 14,133	$ 10,385	$ 8,107	$ 6,475
$ 11,187	$ 9,185	$ 6,457	$ 6,136	$ 3,683	$ 3,706	$ 3,594	$ 3,550
$ 8,635	$ 6,875	$ 6,637	$ 3,584	$ 3,244	$ 3,260	$ 3,133	$ 2,901
$ 6,515	$ 5,282	$ 2,541	$ 2,292	$ 2,349	$ 2,399	$ 2,453	$ 2,500
$ 11,736	$ 9,268	$ 8,706	$ 8,287	$ 4,640	$ 4,525	$ 4,177	$ 3,884
$ 21,205	$ 18,087	$ 14,780	$ 10,993	$ 7,480	$ 7,480	$ 6,727	$ 6,451
$ 49,498	$ 36,426	$ 34,051	$ 22,516	$ 21,613	$ 17,865	$ 14,834	$ 12,926

HUGH RUSSEL LIMITED
(Incorporated under the laws of Canada)
AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet

DECEMBER 31, 1974
(with comparative figures at December 31, 1973)

ASSETS	1974	1973
Current:		
Accounts receivable	$ 46,374,504	$ 24,009,247
Inventories (note 1(c))	44,341,810	25,264,507
Prepaid expenses and other assets	1,281,049	822,773
Total current assets	91,997,363	50,096,527
Fixed, at cost (note 1(b)):		
Land	1,789,929	1,522,360
Buildings	8,972,903	7,383,921
Machinery and equipment	8,708,147	6,642,830
	19,470,979	15,549,111
Less accumulated depreciation	6,697,228	5,680,014
	12,773,751	9,869,097
Premiums paid on acquisitions (notes 1 (e) 6 & 9)	9,625,724	3,868,924
Other investments and advances (notes (5 & 9 (c & d))	1,074,027	408,457
	$115,470,865	$ 64,243,005

(See accompanying notes)

On behalf of the Board:

A. D. Russel, Director

J. P. Foster, Director

LIABILITIES	1974	1973
Current:		
Bank indebtedness (against which certain receivables and inventories are pledged)	$. 19,841,644	$ 4,661,671
Accounts payable and accrued charges	**28,789,857**	16,306,443
Income taxes payable	**10,132,744**	4,195,872
Long-term debt due within one year (note 2)	**339,996**	938,757
Contractual obligations due within one year (note 6)	**3,853,682**	2,442,724
Total current liabilities	**62,957,923**	28,545,467
Deferred income taxes	**367,985**	296,714
Long-term debt (note 2)	**11,664,941**	11,169,513
Contractual obligations (note 6)	**2,690,438**	1,203,931
Shareholders' equity:		
Capital stock —		
Authorized (note 3)		
Issued (note 3):		
12,040 6½ % preferred shares	**240,800**	1,043,200
1,864,816 Class "A" common shares 674,567 Class "B" common shares	**9,847,021**	8,909,140
Contributed surplus	**79,572**	79,572
Retained earnings	**27,622,185**	12,995,468
	37,789,578	23,027,380
	$115,470,865	$ 64,243,005

Consolidated Statement of Earnings

FOR THE YEAR ENDED
DECEMBER 31, 1974
(with comparative figures for 1973)

	1974	1973
Net sales — metals	$200,446,029	$ 96,468,116
— bearings	12,435,286	9,625,843
— home products	36,307,102	20,382,852
— engineering	13,611,409	3,914,335
Total sales	262,799,826	130,391,146
Cost of sales	199,788,772	97,954,855
Gross profit	63,011,054	32,436,291
Operating expenses other than depreciation and interest	27,442,030	18,139,156
Earnings from operations before deducting the following:	35,569,024	14,297,135
Depreciation (note 1 (b))	1,227,504	864,493
Interest on short-term borrowing	1,370,592	410,076
Interest on long-term debt	1,026,505	985,578
Earnings before income taxes	31,944,423	12,036,988
Income taxes	16,281,606	5,969,016
Net earnings for the year	$ 15,662,817	$ 6,067,972
Earnings per common share	$6.25	$2.82
Fully diluted earnings per share	$6.05	$2.35

Consolidated Statement of Retained Earnings

FOR THE YEAR ENDED
DECEMBER 31, 1974
(with comparative figures for 1973)

	1974	1973
Balance, beginning of year	$ 12,995,468	$ 7,754,233
Net earnings for the year	15,662,817	6,067,972
	28,658,285	13,822,205
Deduct:		
Dividends paid on common shares (including dividends on Class "B" shares and special tax thereon)	1,010,056	670,495
Dividends paid on preferred shares	26,044	123,430
Expenses of share issue (net of tax of $34,150)	—	32,812
	1,036,100	826,737
Balance, end of year	$ 27,622,185	$ 12,995,468

(See accompanying notes)

Consolidated Statement of Changes in Financial Position

FOR THE YEAR ENDED
DECEMBER 31, 1974
(with comparative figures for 1973)

		1974	1973
FUNDS WERE OBTAINED FROM:			
Operations —			
Net earnings		$ 15,662,817	$ 6,067,972
Expenses not requiring a current outlay of funds:			
Depreciation		1,227,504	864,493
Deferred income taxes		35,663	20,813
		16,925,984	6,953,278
Common shares issued under stock option and employee share purchase plans (note 3 (b))		135,481	380,096
Sales of fixed assets		89,971	93,725
Additional contractual obligations		3,394,054	776,027
Issue of Series C debentures		—	5,000,000
Issue of common shares		—	5,670,000
Other long-term debt issued		816,406	—
		21,361,896	18,873,126
FUNDS WERE APPLIED TO:			
Purchase subsidiary companies (note 9)		5,802,629	1,717,651
Less working capital acquired		2,667,774	419,458
		3,134,855	1,298,193
Consisting of:			
Fixed assets	$ 683,266		
Goodwill	2,783,263		
Deferred income taxes	(35,608)		
Long-term debt	(296,066)		
	$3,134,855		
Reduce contractual obligations		1,907,548	2,429,123
Invest in other businesses (notes 9(c) and (d))		507,500	—
Increase premiums on businesses previously acquired		2,973,536	1,104,053
Additions to facilities		3,538,863	1,094,156
Pay dividends		1,036,100	793,925
Reduce long-term debt		617,044	1,347,978
Expenses of share issue (net)		—	32,812
Other (note 5)		158,070	408,457
		13,873,516	8,508,697
INCREASE IN WORKING CAPITAL		7,488,380	10,364,429
WORKING CAPITAL, BEGINNING OF YEAR		21,551,060	11,186,631
WORKING CAPITAL, END OF YEAR		$ 29,039,440	$ 21,551,060

(See accompanying notes)

Notes to Consolidated Financial Statements
December 31, 1974

1. Statement of Accounting Principles

(a) Basis of Consolidation

The consolidated financial statements include the accounts of the Company and all subsidiaries and include the earnings of subsidiaries since acquisition.

(b) Depreciation

The Company and all subsidiaries provide for depreciation on a straight line basis, except for the Sumner Group and Syncro Machine Company. The Sumner Group uses the reducing balance method and Syncro uses a combination of the straight line and reducing balance methods. The rates of depreciation are:

	Sumner	Syncro	Other Companies
Buildings	5% and 10%	5% and 10% (straight line)	2½% and 5%
Machinery and Equipment	20%	30% (reducing balance)	10%

(c) Inventories

Inventories are valued at the lower of cost and net realizable value.

(d) Foreign Currencies

All assets and liabilities of subsidiaries outside Canada are translated into Canadian dollars at year-end rates of exchange, and income and expenses are translated at average rates prevailing during the year. The gains or losses resulting from these translations were not material.

(e) Goodwill

Premiums paid on acquisitions (net of discounts) are carried in the accounts at cost without amortization unless the related business is sold or suffers a permanent decline in value. The Canadian Institute of Chartered Accountants has issued a recommendation, applicable to acquisitions after March, 1974, which recommends that goodwill be amortized over an appropriate period not to exceed 40 years. Any goodwill arising on future acquisitions will be amortized in accordance with this recommendation.

2. Long-Term Debt	**1974**	1973
Series A 6¼% debentures, maturing 1985	**$ 1,901,000**	$ 1,966,000
Series B 9½% debentures, maturing 1991	**2,860,000**	2,930,000
Series C 8½% debentures, maturing 1993	**4,800,000**	5,000,000
6½% General mortgage bonds, maturing 1984	**644,500**	653,500
Note payable with interest at 1% over prime bank rate	**210,000**	280,000
10% mortgage payable	**312,616**	319,794
Other long-term debt	**1,276,821**	958,976
Total long-term debt	**12,004,937**	12,108,270
Less amounts due within one year included in current liabilities	**339,996**	938,757
Total	**$11,664,941**	$11,169,513

Other long-term debt, described above, consists mainly of mortgages with interest rates varying from 5% to 10¾%.

Amounts required to repay principal over the next five years are:

1975	$339,996
1976	488,000
1977	549,000
1978	504,000
1979	527,000

The Series A, Series B and Series C debentures are secured by a first mortgage on the shares and fixed assets of Russelsteel Limited, and by a floating charge on the remaining assets of the Company and Russelsteel Limited. Prior to the issue of the Series D debentures referred to in note 10, the shares and assets of Russelsteel (Alberta) Limited will be similarly pledged. The trust deeds under which the debentures were issued call for progressive annual sinking fund payments to retire $1,500,000 Series A by 1984, $2,250,000 Series B by 1990 and $3,750,000 Series C by 1992. Under certain conditions the terms of these trust deeds prohibit the Company from paying dividends other than cumulative preferred dividends or stock dividends. In addition, under the terms of the supplemental trust deed relating to the Series B and Series C debentures, certain general conditions are imposed. All of these requirements have been met.

3. Capital Stock

(a) Preferred Shares

(i) Authorized:

The authorized preferred shares of the Company consist of 490,000 first preferred shares, $20.00 par value, of which 165,000 have been designated as 6½% cumulative, redeemable, convertible first preferred shares, Series "A". These shares are redeemable by the Company at $24.00 and are convertible at the holder's option into Class "A" or "Class "B" common shares on the basis of four common shares for each preferred share.

(ii) Issued and Outstanding:

	Number of Shares
First preferred shares, Series "A"	
At December 31, 1973	52,160
Minus shares converted to common	(40,120)
At December 31, 1974	12,040

(b) Common Shares

(i) Authorized:

The authorized common shares of the Company consist of 8,000,000 Class "A" shares of no par value, and 8,000,000 Class "B" shares of no par value. These shares are inter-convertible on a share for share basis at the holder's option.

(ii) Issued and Outstanding:

	Number of Shares	
	Class "A"	Class "B"
At December 31, 1973	1,720,656	645,201
Add:		
Issued to employees under the provisions of the employees' share purchase plan for cash of $134,401	13,036	—
Issued upon exercise of stock options for cash of $1,080	100	—
Issued upon conversion of preferred shares	160,480	—
Issued upon conversion of Class "A" to Class "B" and vice versa	69,171	98,627
Minus conversions of Class "A" to Class "B" and vice versa	(98,627)	(69,171)
At December 31, 1974	1,864,816	674,657

(c) Shares Reserved

Authorized unissued common shares are reserved for possible future issue as follows:

	Number of Shares	
	Class "A"	Class "B"
For conversion of preferred shares	48,160	48,160
For conversion to Class "A" and to Class "B"	674,657	1,864,816
For options granted to employees	3,060	—
For additional options	2,884	—
For the employees' share purchase plan	32,155	—
Total shares reserved	760,916	1,912,976

4. Stock Options

Options granted to employees who are not officers to purchase Class "A" shares are outstanding as follows:

At $3.04 per share	160 shares
At $10.80 per share	2,900 shares
	3,060 shares

These options are exercisable in instalments up to 1983.

5. Senior Executive Share Purchase Plan

The Company is authorized to provide loans to a trustee for the purchase of shares of the Company for the benefit of senior officers (who may be directors) specified by the Board of Directors. At December 31, 1974, the Company had advanced a total of $566,527 to the trustee pursuant to this plan.

6. Commitments and Contingencies

Under the terms of the agreements whereby the Company acquired certain subsidiaries, the Company is committed to pay for the shares purchased in annual instalments.

In some cases, the final purchase price will be determined by the earnings of the businesses acquired during the five years subsequent to acquisition. It is the Company's policy not to record such liabilities in the accounts until the earnings for each year have been determined. Full provision has been made for these liabilities based on earnings to the end of 1974. Based on forecast earnings, it is estimated that additional payments will amount to approximately $1,000,000.

7. Lease Commitments

The Company and its subsidiaries are committed to annual rental payments of approximately $552,000 on leases expiring in the years 1975 to 1990.

8. Remuneration of Directors and Officers

The Company has nine directors and seven officers, six of whom are directors. For the year ended December 31, 1974, the following amounts are charged in the Consolidated Statement of Earnings for direct remuneration and retirement benefits:

Directors, as directors	$ 5,200
Officers, as officers	$1,085,630

9. Acquisitions

(a) During the year, all the outstanding shares of St. Laurent Steel Ltd. and of Boone Plumbing Supply Company Limited were acquired. The net assets obtained in these acquisitions, which were accounted for as purchases, are as follows:

	St. Laurent	Boone
Tangible assets, at book value	$ 3,135,747	$ 1,310,250
Less liabilities, at book value	2,317,731	1,137,143
	818,016	173,107
Adjustments to reflect fair value of tangible assets	—	—
Premiums paid on acquisition	2,318,371	164,893
	$ 3,136,387	$ 338,000
Consideration:		
Cash	$ 800,000	$ 150,000
Contractual obligations	2,336,387	188,000
	$ 3,136,387	$ 338,000

The acquisition of both companies was effective January 1, 1974.

(b) Effective January 1, 1974, a subsidiary company acquired the business and certain assets of Halliday Craftsmen Limited for cash of $2,328,243. Of this amount, $300,000 was for goodwill and the balance was for inventories and fixed assets.

(c) On July 30, 1974, Sumner Holdings Limited entered a joint venture agreement to establish a company, Springhill Homes & Supplies Limited, to manufacture sectional houses in the Atlantic Provinces. This agreement requires Sumner to advance up to $350,000 to Springhill by way of 10% subordinated notes. At December 31, 1974, $175,000 had been advanced.

(d) During 1974, Ceeco Machinery Manufacturing Limited acquired 49% of the issued shares of a Mexican company, Disenos Y Construcciones de Maquinaria, S.A. for cash of $330,000.

10. Event Subsequent to Year-End

In 1975, the Company proposes to issue and sell in the order of $10,000,000 Series D debentures to Wood Gundy Limited. The net proceeds of this issue when received will be applied to reduce outstanding bank loans of subsidiaries.

Auditors' Report

Clarkson, Gordon & Co.

Chartered Accountants

Royal Trust Tower
P.O. Box 251, Toronto-Dominion Centre
Toronto, Canada M5K 1J7

To the Shareholders of
Hugh Russel Limited:

We have examined the consolidated balance sheet of Hugh Russel Limited and its subsidiary companies as at December 31, 1974 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974, and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles which, except for the change in the method of accounting for goodwill explained in note 1 (e) to the financial statements, were applied on a basis consistent with that of the preceeding year.

Clarkson, Gordon & Co.

Chartered Accountants

Toronto, Canada,
February 19, 1975.

Directors and Officers

Board of Directors

A. D. Russel *Toronto, Ontario*	Chairman of the Board, Hugh Russel Limited
J. P. Foster *Toronto, Ontario*	President, Hugh Russel Limited
M. D. Glenn *Montreal, P.Q.*	President, Russelsteel Limited
G. T. Urquhart *Moncton, New Brunswick*	President, Sumner Holdings Limited
J. D. Reilly, Q.C. *Toronto, Ontario*	Partner, Hill, Friend & Reilly
R. Hartog *Perkinsfield, Ontario*	President, Waltec Enterprises Ltd.
K. D. Mooney *Islington, Ontario*	President, Valley Camp Limited
G. D. Shearer, C.A. *Toronto, Ontario*	Treasurer, Hugh Russel Limited
J. W. Vingoe *Islington, Ontario*	Senior Vice-President, Massey Ferguson Industries Limited

Officers

Hugh Russel Limited

A. D. Russel	Chairman and Chief Executive Officer
J. P. Foster	President
M. D. Glenn	Vice-President
G. T. Urquhart	Vice-President
G. D. Shearer, C.A.	Treasurer
J. D. Reilly, Q.C.	Secretary
J. M. O'Sullivan	Assistant Secretary and Manager, Corporate Planning

Russelsteel Group

M. D. Glenn	President
W. P. E. Mang	Executive Vice-President
L. A. Robidoux	Vice-President, Marketing Administration
R. W. Cameron	Vice-President, Finance
D. D. Brydon	Vice-President, Eastern Region
L. F. Newbery	Vice-President, Central Region
P. Parker	Vice-President, Western Region
A. M. Shkut	General Manager, Western Region
G. H. Thomas	President, St. Laurent Steel
C. A. Roberts	General Manager, Vincent Steel

Canadian Bearings Group

J. B. Adams	President
D. S. Pollock	General Manager
G. E. Aberdein	Manager, Branch Operations
F. A. Schweitzer	Manager, Branch Sales
W. J. McKee	Manager, Customer Service
H. H. Paynter	Controller

Sumner Group

G. T. Urquhart	President
E. A. Hosford	Manager, Wholesale Operations
P. Deschenes	Manager, Corporate Development
D. B. Raven	Treasurer
J. M. Hockin	General Manager, T. P. Calkin Limited
W. H. Yeadon	General Manager, Halliday Craftsmen Division
S. F. Watkins	General Manager, Emerson & Fisher Division
A. Arsenault	Vice-President, Moncton Hardware
P. DesRosiers	Vice-President, Boone Plumbing Supply

Ceeco Group

A. Varga	President
B. Riden	General Manager, Ceeco Canada
J. Varga	Chief Engineer
K. Schillebeeckx	General Manager, Syncro
R. H. Roebuck	Treasurer
R. Moreno	President, Dicomasa, Mexico
E. Toppler	General Manager, Ceeco Brazil

Corporate Directory

Hugh Russel Limited
Head Office:
8 King Street East
Toronto, Ontario M5C 1B5

Registrar and Transfer Agent
The Royal Trust Company

General Counsel
J. D. Reilly, Q.C.

Auditors
Clarkson, Gordon & Co.

Stock Exchanges
Montreal and Toronto

Operating Groups

Russelsteel Group
Executive Office:
420 Stinson Street
Montreal, P.Q. H4N 2G2

Steel Service Centres

Quebec	Montreal St. Laurent
Ontario	Toronto Etobicoke Hamilton
Manitoba	Winnipeg
Saskatchewan	Regina Saskatoon
Alberta	Calgary Edmonton
British Columbia	Vancouver

Canadian Bearings Group
Head Office:
3110 American Drive
Mississauga, Ontario L4V 1A9

Distribution Centres

Ontario	Malton Scarborough Toronto Peterborough North Bay Hamilton St. Catharines Windsor Kitchener Barrie Kingston
Quebec	Montreal

Sumner Group
Head Office:
140 Baig Boulevard, Moncton, N.B.

Wholesale Building Supply Outlets

Nova Scotia	Halifax Bridgewater Dartmouth Kentville (2) Middleton Stellarton
New Brunswick	Moncton (4) Saint John (2) Fredericton Campbellton
P.E.I.	Charlottetown
Quebec	Hull
Ontario	Ottawa

Retail Home Centres

Nova Scotia	Kentville (2) Middleton Halifax Springhill Truro Dartmouth New Glasgow
New Brunswick	Moncton (3)

Manufacturing Facilities
Truro
Debert

Ceeco Group
Head Office:
2180 Highway #7, Concord, Ontario

Manufacturing Plants

Canada	Toronto, Ontario
United States	Erie, Pennsylvania Perth Amboy, New Jersey
Mexico	Mexico City
Brazil	Sao Paulo

Printed in Canada